

Message Text

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ATHENS FOR RTDO

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SUBJ: UPDATE OF INVESTMENT CLIMATE STATEMENT

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1. THE GOVERNMENT OF IRAN FAVORS FOREIGN PRIVATE INVESTMENT IN GENERAL BUT PARTICULARLY IN HIGH-TECHNOLOGY AND IMPORT-SUBSTITUTION/EXPORT-ORIENTED ENTERPRISES. INVESTMENTS IN FIELDS OTHER THAN PETROLEUM, MINING, BANKING AND INSURANCE ARE GOVERNED BY THE LAW FOR THE ATTRACTION AND PROTECTION OF FOREIGN INVESTMENT PASSED IN 1955 AND IMPLEMENTING REGULATIONS. GOVERNMENT APPROVAL MUST BE OBTAINED FOR A FOREIGN INVESTMENT TO BE ELIGIBLE FOR THE LEGAL PROTECTION AND BENEFITS OFFERED BY THIS LEGISLATION. THERE ARE MANY GOOD - EVEN OUTSTANDING - OPPORTUNITIES FOR FOREIGN COMPANIES TO PARTICIPATE PROFITABLY IN IRAN'S ECONOMIC DEVELOPMENT. HOWEVER, PROBLEMS SUCH AS PRICE CONTROLS, MANDATORY PROFIT SHARING REQUIREMENTS, SOMETIMES ARBITRARY TAX ASSESSMENTS, EXPENSIVE LIVING AND OPERATING COSTS, AND CUMBERSOME CUSTOMS AND OTHER BUREAUCRATIC PROCEDURES HAVE DISCOURAGED

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SOME FOREIGN (AND IRANIAN) BUSINESSMEN. MANY OTHERS HAVE LOOKED BEYOND THESE DIFFICULTIES TO THE VERY REAL, LONG-RANGE GROWTH POSSIBILITIES OF THE IRANIAN MARKET.

2. THE FOCAL POINT FOR FOREIGN INVESTORS IS THE FOREIGN INVESTMENT DEPARTMENT (FORMERLY THE CENTER FOR THE ATTEACTION AND PROTECTION OF FOREIGN INVESTMENT) OF THE MINISTRY

OF ECONOMIC AFFAIRS AND FINANCE.

3. EXPLORATION AND EXPLOITATION OF MINERALS ARE COVERED BY THE MAY 18, 1957 LAW ON MINES, AND PERTINENT REGULATIONS, WHILE THE JULY 31, 1957 PETROLEUM LAW GOVERNS PETROLEUM DEVELOPMENT WHICH IS HANDLED BY THE NATIONAL IRANIAN OIL COMPANY. BANKING INVESTMENTS ARE GOVERNED BY THE MONETARY AND BANKING ACT OF 1972 AND INSURANCE BY THE 1971 INSURANCE ACT.

4. THE U.S. AND IRAN SIGNED A TREATY OF AMITY, ECONOMIC RELATIONS, AND CONSULAR RIGHTS IN 1955 AND AN INVESTMENT GUARANTY AGREEMENT IN 1957 WHICH WAS AMENDED IN MARCH 1970. THE GOVERNMENT OF IRAN HAS CONCLUDED CONVENTIONS FOR THE AVOIDANCE OF DOUBLE TAXATION WITH THE UNITED KINGDOM AND FRANCE AND AN AS-YET-UNRATIFIED AGREEMENT WITH SOUTH KOREA COVERING SOCIAL SECURITY. NEITHER TYPE OF AGREEMENT HAS BEEN CONCLUDED WITH THE UNITED STATES; HOWEVER, NEGOTIATIONS ON A TAX TREATY WERE BEGUN AND SUSPENDED PENDING A SCHEDULED MAJOR REVISION OF THE IRANIAN TAX LAW. IRAN IS NOT A CONTRACTING PARTY TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE.

5. IRAN'S MOST IMPORTANT RESOURCES ARE PETROLEUM AND NATURAL GAS, ACCOUNTING FOR APPROXIMATELY 38 PERCENT OF THE GROSS NATIONAL PRODUCT AND ANNUAL FOREIGN EXCHANGE
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REVENUES OF 20 BILLION DOLLARS. THE GOVERNMENT IS INTERESTED IN INDUSTRIAL FACILITIES WITH EXPORT POTENTIAL BASED ON LOCAL PROCESSING OF OIL AND GAS. OTHER MAJOR MINERAL-BASED INDUSTRIES IN WHICH THE GOVERNMENT IS INTERESTED IN DEVELOPING DOWNSTREAM OR SECONDARY INDUSTRIES INCLUDE COPPER AND STEEL. ABOUT 60 PERCENT OF IRAN'S POPULATION OF 34 MILLION IS RURAL AND EMPHASIS IS PLACED ON DEVELOPING THE AGRICULTURAL SECTOR OF THE ECONOMY, THROUGH INCREASED PRODUCTIVITY AND THE ESTABLISHMENT OF AGRO-INDUSTRIAL INDUSTRIES. ASIDE FROM PETROLEUM-RELATED FACILITIES, THE LARGEST INDUSTRIAL SECTORS INCLUDE TEXTILES, MOTOR VEHICLES, METALS, HOUSEHOLD APPLIANCES AND BUILDING SUPPLIES. LOCAL PRODUCTION OF MANY ESSENTIAL INDUSTRIAL RAW MATERIALS AND OTHER SUPPLIES STILL IS NOT ADEQUATE TO MEET THE DEMANDS OF INDUSTRY WHICH DEPENDS HEAVILY UPON IMPORTS. SIMILARLY, IMPLEMENTATION OF PLANS TO GREATLY UPGRADE THE COUNTRY POWER AND WATER AND TRANSPORTATION FACILITIES HAS NOT KEPT PACE WITH THE NEED. SUBSTANTIAL IMPROVEMENT HAS BEEN EVIDENT IN SOME AREAS, HOWEVER, FOR EXAMPLE PORTS. LONG DELAYS IN BERTHING HAVE BEEN VIRTUALLY ELIMINATED.

6. IRAN APPEARS TO BE IN FOR A PERIOD OF SLOWER ECONOMIC GROWTH THAN IN THE EARLY YEARS OF THE "OIL BOOM" AS THE GOVERNMENT ATTEMPTS TO GENERATE AN ACCEPTABLE RATE OF ECONOMIC GROWTH WHILE CONTROLLING INFLATION. THIS SHOULD RESULT IN A MORE STABLE AND LESS HECTIC INVESTMENT ENVIRONMENT.

7. THE LAW FOR THE ATTRACTION AND PROTECTION OF FOREIGN INVESTMENT GUARANTEES TO APPROVED ENTERPRISES REMITTANCE OF PROFITS, REPATRIATION OF CAPITAL, AND FULL COMPENSATION IN THE EVENT OF NATIONALIZATION. OTHER INCENTIVES INCLUDE LOW-INTEREST LOANS FROM GOVERNMENT OF IRAN DEVELOPMENT BANKS. REBATES ON RAW MATERIALS TO BE USED IN PRODUCTS FOR EXPORT, TAX HOLIDAYS OF FIVE OR UNCLASSIFIED

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TEN YEARS DEPENDING UPON LOCATION.

8, IRAN CURRENTLY HAS FEW FOREIGN EXCHANGE RESTRICTIONS AND FOREIGN CURRENCY BANK ACCOUNTS ARE PERMISSIBLE. EARNING, INTEREST, AND/OR REMITTANCE OF CAPITAL FROM GOVERNMENT ACCOUNT APPROVED INVESTMENTS OR LOANS CAN BE MADE WITHOUT DIFFICULTY.

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9. INVESTMENT APPLICATIONS ARE SUBMITTED FOR GOI APPROVAL TO THE FOREIGN INVESTMENT DEPARTMENT ALONG WITH PROJECT DETAILS. IF APPROVED BY THEIR AGENCY ON THE BASIS OF ITS INVESTIGATION, THEY MUST ALSO BE APPROVED BY THE FOREIGN INVESTMENT BOARD AND THE COUNCIL OF MINISTERS BEFORE A LICENSE IS ISSUED. SOME CRITERIA FOR APPROVAL, IN ADDITION TO CONSONANCE WITH THE COUNTRY'S ECONOMIC DEVELOPMENT PLANS, INCLUDE EXPORT WARNING AND/OR IMPORT SUBSTITUTION ACCEPTABILITY, THE DEGREE OF AND NEED FOR THE TECHNOLOGY INVOLVED, ADDITION TO TRAINING THE COUNTRY'S GNP AND TRAINING FACILITIES FOR IRANIANS. EXPORT QUOTAS MAY BE IMPOSED IN CERTAIN INSTANCES. THERE ARE TRADEMARK, PATENT, AND COPYRIGHT LAWS AND IRAN IS A MEMBER OF THE 1883 PARIS UNION INTER-NATIONAL CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY; HOWEVER, IT HAS NOT YET ACCEDED TO THE UNIVERSAL COPYRIGHT CONVENTION AND FOREIGN COPYRIGHT PROTECTION IS NOT FULLY ADEQUATE.

10. LICENSING ARRANGEMENTS ARE NOT UNCOMMON. TERMS NORMALLY DO NOT EXCEED FIVE YEARS AND RAYALTY OR TECHNICAL ASSISTANCE FEES THREE PERCENT. IN MANY CASES A GRADUAL UNCLASSIFIED

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PHASE OUT OF THE FEE OVER THE LIFE OF THE AGREEMENT MAY BE REQUIRED. SUCH ARRANGEMENTS ALSO ARE HANDLED THROUGH THE FOREIGN INVESTMENT DEPARTMENT.

11. THE NUMBERS OF AVAILABLE SKILLED WORKERS AND TECHNICAL AND MANAGERIAL PERSONNEL DO NOT MEET THE DEMAND AND FREQUENTLY ARE THE OBJECT OF CONSIDERABLE COMPETITION. FOREIGN NATIONALS MUST OBTAIN A WORK PERMIT BEFORE STARTING WORK AND THESE ARE GRANTED ACCORDING TO THE NEEDS OF THE COUNTRY FOR THE SPECIFIC SKILLS INVOLVED. LABOR COSTS, INCLUDING FRINGE BENEFITS, WHEN MEASURED AGAINST PRODUCTIVITY ARE NOT INEXPENSIVE. WORKERS ARE COVERED BY SOCIAL SECURITY, THE COSTS OF WHICH TO THE EMPLOYER ARE SUBSTANTIAL. CONTRIBUTION ON BEHALF OF U.S. WORKERS CURRENTLY MUST BE MADE BOTH THE THE U.S. AND IRANIAN SOCIAL SECURITY FUNDS.

12. FOREIGN EQUITY IN MOST IRANIAN INDUSTRIAL ENTERPRISES IS LIMITED TO 25 PERCENT; HOWEVER, FOREIGN EQUITY IN LESS SOPHISTICATED INDUSTRIES MAY BE LIMITED TO 15-20 PERCENT WHILE THAT IN HIGH TECHNOLOGY FIELDS CAN REACH A MAXIMUM OF 35 PERCENT.

13. IN JUNE 1975, THE "WIDER SHARE OWNERSHIP LAW" WAS PASSED REQUIRING THE SALE OF 49 PERCENT OF SHARES BY INDUSTRIAL ENTERPRISES MEETING SPECIFIED CRITERIA TO

THEIR WORKERS, FARMERS, OTHER WORKERS AND THE GENERAL PUBLIC WITHIN A THREE-YEAR PERIOD. AFFECTED BY THE LEGISLATION WERE ALL INDUSTRIAL AND MINING (EXCEPT PETROLEUM) COMPANIES SET UP BEFORE APRIL 24, 1975 HAVING A NOMINAL CAPITAL OF 100 MILLION RIALS, OR FIXED ASSETS OF 200 MILLION RIALS, OR ANNUAL SALES OF 240 MILLION RIALS. ALL COMPANIES IN PRODUCTION FIVE OR MORE YEARS
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ARE COVERED, INCLUDING THOSE WITH FOREIGN EQUITY. THOSE COMPANIES ESTABLISHED AFTER APRIL 24, 1975 HAVE THE OPTION OF DEFERRING THE SALE OF SHARES TO A DATE NO LATER THAN FIVE YEARS AFTER THE START OF PRODUCTION. EXISTING MANAGEMENT AND VOTING RIGHTS MAY NORMALLY BE MAINTAINED. NEITHER THE "WIDER SHARE OWNERSHIP LAW" NOR THE RESTRICTION IN THE MAXIMUM AMOUNT OF FOREIGN EQUITY APPLIES TO NON-INDUSTRIAL VENTURES.

14. IN PAST YEARS A NUMBER OF U.S. INVESTORS HAVE TAKEN ADVANTAGE OF THE INSURANCE PROTECTION OFFERED BY THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) ON EXPROPRIATION, NON-CONVERTIBILITY, WAR, INSURRECTION, AND EXTENDED RISK OFFERED UNDER THE INVESTMENT GUARANTY AGREEMENT BETWEEN THE U.S. AND IRAN. BEGINNING IN 1978, THE COVERAGE OFFERED BY OPIC TO NEW U.S. INVESTMENTS IN IRAN HAS BEEN VIRTUALLY ELIMINATED.

15. IRANIAN AUTHORITIES HAVE BEEN INCREASINGLY SELECTIVE IN THEIR APPROVALS OF NEW FOREIGN INVESTMENTS. GOVERNMENT CONNECTED AGENCIES ARE LOOKING MORE TOWARD WELL ESTABLISHED FOREIGN COMPANIES EXPERIENCED IN OPERATING OVERSEAS.

16. THE ESTIMATED BOOK VALUE OF ALL PRIVATE EQUITY INVESTMENT IN IRAN AS OF AUGUST 1977 WAS APPROXIMATELY 1,740 MILLION DOLLARS, INCLUDING 695 MILLION DOLLARS FROM THE UNITED STATES. THIS INCLUDED (IN MILLIONS OF U.S. DOLLARS WITH U.S. INVESTMENT IN PARENTHESIS): OIL SECTOR, 825 (457); BANKING, 144.7 (28TLV AND OTHER, 770 (209). SOURCES ARE: OIL, NATIONAL IRANIAN OIL COMPANY INDUSTRY, AND EMBASSY; BANKING, CENTRAL BANK OF IRAN; AND OTHER, MINISTRY OF ECONOMIC AFFAIRS AND FINANCE.
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